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1 Introduction

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This volume addresses the very critical question of the role of international trade rules and capacity-building initiatives in the growth of the textiles and clothing (T&C) industry in developing countries. This issue has taken a pivotal place in the development literature as a result of the complete abolition of the quota system of the Multi-Fibre Arrangement (MFA) in the T&C industry since 1 January 2005. In several countries there are visible effects of the abolition of the WTO quota provisions. Countries such as China and India have benefited from it while some African countries, such as Kenya and Ghana, have lost substantial international markets that had been protected for them under the previous WTO quota system. On the other hand, many developing countries, such as Vietnam and Mexico, were almost unaffected by the abolition of WTO provisions. Is the abolition of the quota system the real cause of the difficulties encountered by the T&C industry in many developing countries over the last ten years?

This book considers several aspects that could explain the differential evolution of export performance in the T&C industry of several developing countries. The explanation could lie in the trade liberalization in the T&C industry, changes in the cost of production, the level of development, national policies in favour of T&C industry, and their association in the present scenario of the international trade in T&C products.

Chapter 2 provides a foundation for the analysis offered in the subsequent chapters. It investigates the role of wage rates and the level of economic development in the international trade of textiles and clothing. Data for 51 developing countries for the period 1975–2004 are used in the analysis presented in this chapter. The selection of countries is constrained by the availability of data.

The countries in the sample have been grouped into three categories according to their performance in international markets. Several countries, such as China, India, Indonesia, and Singapore, which ventured into the export market of clothing during the 1960s and 1970s still continue to

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maintain their share of international trade. In fact, countries such as China and India have increased their share of the global trade in clothing, particularly since the early 1980s. Trends in textiles exports have, by and large, followed similar patterns in several developing countries with few exceptions, such as Singapore, where textiles exports have been declining since the mid-1990s while there is no sign of decline in the level of garment exports. All such countries where garment exports have not declined have been categorized as 'first tier' countries. There is another category of countries, such as Korea, the Dominican Republic, and Uruguay, that experienced decline in their T&C industry during the late 1980s. Such countries have been grouped together as 'second tier' countries. Most of the second tier countries emerged into international markets either in the late 1970s or the early 1980s. The decline of T&C exports in the second tier countries may be attributed to a lack of innovation policies (Mytelka and Ernst, 1998). A third group of countries began to experience a decline in garments exports during the late 1990s and almost exited in the next few years. Labelled as 'third tier' countries, their presence in international markets was short lived. The average sustainability period of their presence in the global market has been around 7–9 years, albeit with a few exceptions, such as Argentina, Brazil, Costa Rica, Israel, Malaysia, Mexico, and Thailand, that entered the international market in the 1970s.

The findings of the chapter suggest that the level of income, technological policies at the national level, rising wages, and the shifting of the manufacturing base from labour-intensive sectors to high profit and capital-intensive sectors can have influenced the production and exports of T&C, in addition to protectionism and changes in WTO rules.

It seems that the rise in per capita GDP has been one reason for the downfall of the T&C industry in most developing countries. However, there are some exceptions – such as Macao (SAR China), Hong Kong (SAR China) and Singapore. Despite a very high GDP per capita, T&C exports from these countries show no sign of decline. The most reasonable factor in Macao and Hong Kong seems to be the business model adopted by these countries. Garment manufacturing firms in these countries shifted their manufacturing base to mainland China, where average wage levels are much lower. Singapore might be following the same business model by subcontracting to Indonesia. Alternatively, Singapore might still be competitive in the global markets as the result of technological capacity-building initiatives.

The association between the rise in wages and the export performance of the T&C industry is not uniform across the sampled countries. With the exception of Hong Kong and Singapore, clothing exports continue to increase in first tier countries, even though they have reached average wage levels of US$12,000. In other countries, with the exception of third tier African countries, the decline has been experienced at a wage rate ranging from US$4,000 to US$10,000. T&C exports in African countries declined at a wage rate of around US$2,000. We can infer from the export performance of third tier African countries that the main reason for their exit from export markets was the result of a lack of technological capabilities rather than wage pressures. This shows that they came under competitive pressure sooner, and may not have had the chance to build capacity, upgrade or become increasingly innovative. In most of these countries, however, there was no big shift, just a decline in exports and this was premature – that is, it took place before there were internal wage pressures to do so.

The statistical analysis presented in Chapter 2 is complemented in the remaining five chapters by in-depth case studies of five countries: two first-tier countries (China and India), one second-tier country (Uruguay) and two third-tier countries (Mauritius and Ghana). The case studies of China and India are important in that these two countries were among the earliest entrants in international markets in T&C and still continue to increase their market share. It is expected to reveal factors other than wages and shifting to other sectors that have enabled these countries to increase their T&C exports, despite successfully developing high-tech sectors such as software in India and electronic hardware in China. This set of countries also enables us to examine these hypotheses in the context of four different sorts of international trading environments: those of the MFA under GATT (1974–1994) and the Agreement on Textiles and Clothing (ATC) in WTO (1995–2004), the Lomé IV (1990–2000) and Cotonou (2000–2020) agreements between the Africa, Caribbean, and Pacific (ACP) countries and the EU, the Caribbean Basin Initiative (CBI: 2000–2008) between the US and Caribbean region, and the Africa Growth and Opportunity Act (AGOA: 2000–2015) between the USA and Africa.

The researchers in Chapter 3 analyse the performance of the T&C industry in China. The chapter examines the efficacy of the Chinese textiles and clothing policies and its relationship with the growth trajectories followed by the T&C industry over the course of the past two decades. While assessing the relevance of T&C policies it was considered vital to take into consideration all of the stakeholders in the industry. Hence in addition to analysing the policy initiatives the authors have interviewed several large firms to understand the role of policies in technological capacity building. Consequently, the chapter is divided into three parts. The first part discusses T&C policies and their impact on the performance of the industry. The other two parts present case studies of firms in the clothing sector and the textiles sector respectively.

The analysis of foreign trade, the trade competitive index, and the revealed comparative advantage index indicate two important features. First, China's foreign trade has been increasing significantly and the international market share has seen a continuous improvement over the past few decades. The primary exports have changed completely from textiles products to clothing. On the one hand, a favourable economic environment is provided by the high rates of economic growth and the promotional policies of the government.

On the other hand, entry into WTO and the abolition of the textiles and clothing quota system appear to have provided further opportunities for China.

Secondly, China's T&C industry as a whole has become more competitive on the world stage, and the competitive advantage of the textiles sector is stronger than that of the clothing sector. China's competitiveness is based on the advantage offered by its abundant labour resource and the extensive use of traditional techniques. However, because of the increase of labour costs and the transformation of the T&C industry from labour-intensive to technology-intensive, the trade competitiveness of China's T&C at the aggregate level has been weakening over the period between 1980 and 2005. Therefore, China, on the one hand, needs to improve the labour productivity of its T&C industry. On the other hand, it should optimize the trade patterns, form powerful brands and increase the exports of high added-value, high-quality T&C products, in order to improve its international competitiveness in the trade of the textiles and clothing industry.

The case studies suggest that, in addition to taking advantage of international trade rules and government policies, T&C firms have also invested huge amounts in capacity-building programmes. The case studies of two clothing sector firms – Youngor and Hongdou – reveal many similarities in the processes of internationalization within these corporations, albeit with different emphases. They both began as small enterprises operating a single production unit. Learning from international experience and independent innovation activities they succeeded in generating new business ideas, improved their technological levels and operational patterns, experienced independent development processes and internationalization, paid attention to reform and the development of brand strategy, created self-determination and brand culture, and built up a huge sales network. At the same time, they paid attention to digitized projects and information technology and made use of high technology to enhance competitiveness. In their brand strategy, Youngor paid attention to the use of others' experience. By contrast, Hongdou focussed on independent innovation strategies and relied on the traditional culture of China to create its brand culture.

From the case studies of leaders in the Chinese textiles sector – the Changshan Group and the Weiqiao Group – it is clear that several characteristics in their development trajectory were common to every one of these firms. Their growth processes were based mainly on expansions in scale. In switching from a controlled economy to a market economy, the Changshan Group and the Weiqiao Group grasped the opportunities of markets and benefited from policies to increase the scale of the operations. In the course of their expansion, they improved their management systems and upgraded their equipment and technology in order to remain competitive. These groups faced the new challenges of the WTO positively by making efforts to enlarge markets and achieve the status of international enterprises.

The Indian T&C industry is analysed in Chapter 4. The analysis suggests that the structure of the T&C industry in India is to some extent a limitation. India's T&C industry has been dominated by fragmented small producers, and there is little vertical integration in the apparel sector (USITC 2004). Even given all of these lacunae the Indian textiles sector is still the second-largest employer in the nation. In order to grow and compete in the new post-MFA era the Indian textiles sector has to overcome structural difficulties. Similarly, new strategies will be required to meet the competition from firms around the world in a post-MFA era. The industry has made efforts to upgrade technology, but only to a limited extent.

In recent decades, the Indian domestic textiles sector has been quite competitive and has been subjected to many upheavals. Domestic and foreign firms need to be encouraged to invest in export production in order to produce more output. There is a need to bring about technological improvement, structural changes, and liberalization from controls and regulations, increased labour and machine productivity and reliable quality assurance systems for the betterment of the industry. The textiles sector has gone through significant changes in the expectation of increased levels of international competition. For the overall development of the economy, the textiles sector should be treated more favourably than any other sector, within the larger framework of India's industrial policy. Despite the insufficient initiatives taken towards capacity-building initiatives, India's T&C industry has benefited from the abolition of the quota regime of WTO.

The performance of the T&C industry in Mauritius is examined in Chapter 5. The findings suggest that having been one of the main engines of growth of the Mauritian economy, in recent years the local T&C industry has suffered an important downturn over the past few years. Inherent weaknesses such as rising costs of labour, unfavourable terms of trade and declining productivity, notwithstanding the liberalization of trade and the dismantling of the MFA, have forced the industry to restructure itself.

Until very recently, in a context where thousands of workers were being laid off as long-standing companies relocated to greener pastures, many observers had nearly written off the industry and the mood was downbeat. There is now some evidence, as shown in the cases studied, that the sector has been successfully making an important transition to the manufacture of upper-range commodities where it can compete more successfully with emerging low-cost producers. What remains of the sector is predominantly a core group of large enterprises which account for the lion's share of the stakes in terms of exports as well as employment. However, the experience and high standards of quality and reliability which Mauritian T&C producers have acquired and their constant endeavour to innovate and focus on the needs of the customers have enabled them to secure niche markets.

Moreover, together with the challenges of globalization, there have also been some important opportunities presented to the sector, particularly in

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the form of the African Growth and Opportunity Act (AGOA). The considerable investment in new spinning mills and the establishment of strategic partnerships and production sites in India (in the case of FKL) and China (in the case of CMT) reveal the attempts of the industry to make the most of preferential access to the US market.

Nonetheless, there is a need for further research to find out how far the smaller firms are able to cope with a context that is becoming increasingly difficult. As Hurreeram and Little (2002) note, many companies have almost deliberately ignored the implications of competing against low-cost producers on a level playing field (without any protectionist policies including duty- and quota-free access to the markets) given the pressures of increasing demand from the market. These firms have been worst hit by the liberalization of trade. A series of policies and measures taken by the government to redress a number of important weaknesses in the industry, particularly concerning the need to restructure their operations, upgrade technology, upgrade quality and design, innovate, produce high value-added products for niche markets are expected to assist the industry and provide positive signals to the players in the industry.

Time will tell if the objective of the government to position the local T&C industry as a 'textile hub' in the region will materialize itself. Certainly the employment of more than 50,000 workers and the Mauritian economy itself will depend on this.

The findings of the study of the Ghanaian T&C industry, presented in Chapter 6, suggest that the industry registered its greatest output in the mid-1970s and that it has been in continuous decline since that time. Trade liberalization, which was initiated in 1983, could be seen as a new condition to which the industry needed to adjust. Prior to liberalization, the inefficiencies of the sub-sector were not as evident because competition was just among the local manufacturers who must now also cope with external firms. For the textiles industry, historically the larger firms such as GTP, ATL and GTMC had been producing to the satisfaction of the local demand and taste and were not essentially big exporters. This implies that since the entire production processes were not automated, the cost of production is much higher than it would normally be with full automation without incorporating the local designs and tradition.

Even given the high costs of production the firms were still doing relatively well until the pirating of designs and logos by external firms that tended to flood the local markets with fake products. Buyers consider these products to be authentic ones and go for them at their relatively lower price levels compared to the authentic ones. What makes the difference between the price competitiveness of the local and foreign companies is that, whereas the foreign companies use fully automated processes to produce their products at relatively cheaper cost and market them to unsuspecting customers using pirated local logos and designs, the local companies employ a more cost-inefficient but higher-quality combination of traditional and automated techniques. This is essentially the problem associated with the Ghanaian textiles companies.

In recent years, the Ghanaian garments sector has exhibited some positive trends, particularly by firms located in export processing zones. The bottom line is that the upstart apparel companies in the sample appear to be performing relatively well compared to their textiles counterparts which have survived both internal and external shocks for many decades. Such internal shocks comprised of changes in policy resulting in change of governments and external factors such as international trade policies. The recent AGOA between the USA and Ghana has somehow provided ready markets for Ghanaian textiles and apparel products, but it appears that the garments companies located in the export processing zones have been the greatest beneficiaries. The incentives and tax holidays, together with the available pool of trained labour, has given them the edge over those textiles companies that are not located within the Free Zone. In fact, the taxes on finished products instead of the incentives have made matters worse.

The VAT/NHIL levy alone is currently 15 per cent on finished products. Some experts tend to favour the extension of the favourable conditions enjoyed by the companies located within the Free Zone to those that are outside the Zone. Furthermore, textiles companies must find ways of fully automating their production processes whilst simultaneously accounting for local taste in order to survive. Government must help to curb the influx of pirated goods into the market and minimize, if not eliminate, the smuggling of fake and other products into the country. To help especially the exporters meet their delivery times, measures should be put in place at the nation's ports to facilitate administration procedures. As it stands now, it takes a Ghanaian exporter an average of 40 days for the products to be delivered to a US partner compared to only 20 days for their Asian counterparts.

The findings of the study of the Ghanaian T&C industry suggest that although international trade rules such as AGOA and the Lomé Convention have contributed to some extent to the improvement in the performance of the garments sector, governance has been a major problem for the expected growth of both textiles and garments sectors. For the garments sector government has to help exporters by providing better and more efficient shipment facilities. One of the possible ways could be to provide single window services to exporters for shipment and delivery in international markets. For the textiles sector, which is predominantly domestically oriented, government can help local producers by enforcing existing piracy laws, and, if needed, it could enact suitable new legislation to curb the menace of smuggling and other illegal trading activities. Firms in textiles need to be encouraged to adopt automated production technologies. We conclude that good governance, coupled with international trade rules, could change the present levels of performance of the textiles and clothing industry in Ghana.

Chapter 7 investigates the development trajectory of the Uruguayan T&C industry. The author concludes that over the course of the past twenty years, the two firms interviewed in the textiles sector changed their product mix, moving from wool only to mixtures of wool and other fibres. This has required changes in machinery and in the retraining of workers. The two firms interviewed that are still in business are involved in joint research projects with the University of the Republic in Uruguay, but neither of them has made use of the DINACYT programme to promote innovation. The two textiles firms are vertically integrated, and more than 90 per cent of their production is exported. In every case, the company representative said that the firm has learned from its participation in foreign markets. In all the cases training is considered to be essential for the firm to perform well. They all participate in global networks as fabrics suppliers.

The best-performing textiles firm (Paylana) has made a strong commitment to improving quality and design in order to gain access to high-quality segments of the market. It is also the firm with the largest number of links to Uruguayan networks and institutions, and to foreign enterprises. Paylana has a good level of technology. Keeping up to date with the international technology standards and continuous workers' training are cornerstones of the company's culture. The plant is completely automated and information and computer technologies are used intensively. This is the only firm they interviewed that actually has a marketing department. It engages in ongoing market and technology research and it has a very close working relationship with its customers. Hisud is geared to middle-high market segments, where competition from Asia and Eastern European countries is more intense, and their most important lines are menswear.

In the clothing sector, the three firms interviewed are clearly export-oriented and they have all introduced changes in response to fashion market trends. Pelsa is a relatively small firm that has managed to survive and grow in recent years. Its strong points are that it is flexible, it specializes in accessories, and its markets are diversified. It invests in training and technology, and computers and information technologies are in operation in some of the firm's activities.

Over the course of the interviews, these firms did not dwell particularly on high costs or the need for some form of state assistance, but they did state that it is necessary to have clear long-term rules and that trade agreements were essential in order to allow the sector to progress and grow. Of the firms interviewed, Sirfil has shown the worst performance over the past few years. Its level of profitability has declined, and its technology is ten years old because it has not been unable to make the necessary investments to keep up to date in this area. Thus, it seems that the main factors that enable firms to compete successfully in foreign markets are continuous investment in training and technology, the existence of trade agreements, that sales are targeted to high-quality segments of the market, and that the firm has a clearly defined marketing strategy.

It is crystal clear from the findings of the Uruguayan T&C industry case studies that those firms that have failed to invest in innovation and technology have experienced a decline in performance whereas technology and quality-conscious firms have survived in the quota-free trading environment of the T&C industry. Over the past few years the declining trend in T&C exports at the national level is attributed mainly to the lack of technological promotional policies and export promotion policies at the government level.

In conclusion, we may argue that liberalization and the ensuing market expansion have been beneficial to the export performance in those countries that had developed and continued to develop the capacity to innovate in various ways: through new products, especially in the high value-added segment, the adoption of new technologies, in particular computer and automation technologies, successful marketing and brand name development, and training activities. Firms are also assisted in getting on the right track through the provision of government assistance in the form of export processing zones, technology promotion policies, capacity building, development of infrastructure and market monitoring.

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Note: Entries under "textiles & clothing", "clothing sector" and "textile sector" have been kept to a minimum, and readers should refer to the different countries, companies and policies for a more detailed discussion.

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